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U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

July 26, 2000

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Dear Democratic Colleague:

Congress is on its way to invading the Social Security and Medicare surpluses it has promised to save. The majority has virtually abandoned the budget resolution it passed just three months ago, and now with no budget framework, is indiscriminately passing tax cuts and spending increases. The attached report, entitled "*A Budget Report Card: Republican Tax Cuts and Spending Jeopardize Social Security and Medicare Surpluses*," prepared by the Democratic staff of the House Budget Committee, totals all the tax cuts that have passed at least one house of Congress and all the spending increases that Congress is likely to pass.

When these tax and spending measures are combined, this report shows that Congress is disposing of the entire surplus outside of Social Security and Medicare and diminishing the Medicare and Social Security surplus -- even assuming the 10-year projections materialize. If followed, this path will leave no funds to extend the solvency of either Medicare or Social Security or pay for a credible prescription drug plan.

Some think that the newly revised surpluses are so large that they will allow for huge tax cuts as well as for debt reduction, a real prescription drug benefit, added defense spending, and fixes for Social Security and Medicare. That claim is credible only as long as nobody adds up the numbers. And that is precisely what has happened as tax cuts and spending increases have come to the floor in separate pieces. No one has kept tab. The attached report attempts to do so.

This report shows how the budget resolution passed last spring and extolled by the majority for fiscal discipline has now become irrelevant. Congress' legislative actions thus far on taxes, entitlements, and appropriations all exceed the targets set just three months ago.

This report also shows what will happen over time if this *ad hoc*, incoherent approach to budgeting goes on. We will either have to pass a prescription drug benefit that is grossly inadequate or abandon our promises to safeguard the Social Security and Medicare surpluses. Even if no prescription drug benefit is enacted, current budget trends leave little money to extend the solvency of Social Security and Medicare or to step up repayment of the national debt. This is a badly flawed strategy, and it leaves no cushion to fall back on if the 10-year budget projections don't pan out.

I hope you find the attached report helpful. If you have questions, please feel free to call me or the Democratic staff of the House Budget Committee.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

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July 26, 2000
Revised

A BUDGET REPORT CARD

Republican Tax Cuts and Spending Jeopardize Social Security and Medicare Surpluses

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and therefore may not necessarily reflect the views of all the members of the caucus.

General Notes:

- All years are fiscal years unless otherwise noted.
- Numbers may not add due to rounding.

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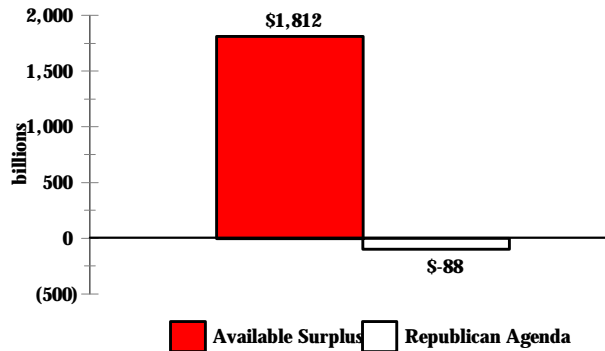
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Overview

Just as they did last year, Congressional Republicans have repeatedly ignored or broken the limits in the budget resolution this year. In the absence of a coherent overall budget, they have succumbed to a tax cut and spending spree. Congress is passing one tax cut after another and voting for spending increases that are quite large but still fail to address important national priorities.

Republican tax cuts and spending plans, when added together, more than exhaust the available surplus after the portion contributed by Social Security and Medicare has been protected, as both parties have promised. This is true even if Congress provides only an inadequate prescription drug benefit. No money is left to extend Social Security and Medicare solvency or to pay off the public debt sooner.

Nothing Is Left Republicans use all the 10-yr. surplus



Republicans are promoting a plethora of grand schemes with exorbitant costs. They believe that they can get away with this as long as nobody adds up the numbers. That is precisely what this report does.

The Republican Agenda Produces Deficits

10-year totals in billions of dollars; see *The Big Picture* for more detail

	2001-2010
Available Surplus, CBO July estimate*	1,812
Republican Agenda:	
Current and anticipated tax cuts	922
Realistic spending projections	602
Debt service	376
Subtotal, Republican Agenda	1,900
Resulting Deficit (-) *	-88

* excludes Social Security and Medicare surpluses

The report shows how Republicans have jettisoned their budget resolution of last spring, which they proudly extolled as the model of fiscal discipline. Republicans' legislative actions, as

opposed to their rhetoric, on taxes, entitlements, and appropriations all exceed the targets they set for themselves just three months ago.

The report also shows what will happen over time if this *ad hoc*, incoherent approach to budgeting continues. Either nothing will be done for Social Security, Medicare, and seniors who need prescription drugs, or Republicans will have to break their promise to protect the Social Security and Medicare surpluses.

Upward revisions of the surplus during the last twelve months have led Congressional Republicans to assert that their overriding enthusiasm for large tax cuts does not undermine fiscal discipline. They argue that the gigantic surpluses allow sufficient room not only for huge tax cuts but also for debt reduction, a prescription drug benefit, more military spending, and repairing Social Security and Medicare.

But Republicans cannot repeal the laws of arithmetic. Their tax cuts that have seen Congressional action thus far have a total revenue loss of \$739 billion over ten years. Permanently extending various tax breaks set to expire but that have always been renewed adds another \$56 billion over ten years. Indexing the alternative minimum tax for inflation so that it does not hit middle-class families as currently projected adds another \$127 billion.

If nondefense appropriations increase at the same rate as they have since 1995 and defense grows at the rate assumed in the Congressional Budget Office's (CBO's) baseline, another \$284 billion of the 10-year surplus is consumed. Similarly projecting the additional farm aid that Congress has voted in the last three years and accounting for entitlement changes reduces the surplus by another \$117 billion. Adding the Republican prescription drug proposal, which the President has deemed inadequate and promised to veto, costs another \$159 billion. And finally, \$376 billion must be deducted to account for extra federal interest payments because all of these claims on the surplus mean that the national debt will not be retired as quickly as assumed in CBO's budget baseline.

Together, these Republican tax cuts and spending increases total \$88 billion more than is available once Social Security and Medicare surpluses have been protected, as both parties have promised to do. This leaves no money to strengthen Social Security and Medicare or to extend their solvency. Nor is any part of the available surplus used to accelerate repayment of the national debt. (This calculation is concisely laid out in the table "Republican Agenda Produces Deficits" in *The Big Picture: Depleting the Social Security and Medicare Surpluses*.)

Republicans are on track to commit more budgetary resources than are available ***even if the highly volatile budget projections prove true***. This is a perilous strategy, especially given the obvious volatility of 10-year budget projections in which estimates can change by over a trillion dollars in just a couple of months. A slight slowdown in economic growth or a rise in interest rates beyond what CBO has assumed would make Republicans' irresponsible fiscal policy even more reckless.

Tax Cuts

Republicans' tax cut strategy for this year is to pass last year's failed tax cut agenda without appearing to do so. Last year, they packaged their tax initiatives together in a single huge bill that consumed \$929 billion of the 10-year budget surplus.¹ This sweeping bill failed because it was obvious that such a large package shouldered aside all other priorities and jeopardized the nation's fiscal health.

This year, Republicans have devised a more clever political strategy of breaking up their tax agenda into a number of individual bills. This allows them to focus attention on the attractions of each separate part of their agenda while obscuring the total cost. This strategy also has made it necessary for Republicans to violate their own budget resolution, which only three months ago they extolled as evidence of fiscal probity. Instead, pushing piecemeal tax cuts, whose revenue loss adds up to \$723 billion over ten years, has required Republicans to violate their own budget blueprint that might otherwise have constrained the cost of their indiscriminate tax agenda.

The table below shows the revenue loss of the tax cuts that Republicans have advanced this year. In two important respects, the table understates the true budgetary cost of these tax cuts. First, most of the bills have provisions that phase in over a very long period of time so that the true costs are "back loaded." For instance, the repeal of the estate tax does not actually occur until 2010, so that the \$105 billion cost for the first ten years pales by comparison to the \$750 billion cost in the following ten years. Secondly, the table only reports the direct revenue loss from the proposals and does not include the fact that these tax cuts mean slower reduction of the national debt and therefore higher government interest payments.

Furthermore, the table includes only those items that have passed either the House or Senate or that imminently will. The table does not include other tax cuts that are being carefully considered and will likely pass at some point, like fixing the alternative minimum tax or permanent extension of the R&E credit. There is wide agreement that these issues need to be addressed, but the table only includes initiatives that actually have seen legislative action this year.

The tax bills' long phase-ins, the additional debt service costs, and the near certainty that future Congresses will have to make other fairly costly tax changes are all major fiscal considerations that weigh heavily on the longer-term fiscal outlook. They are discussed at greater length in the last section of this report, *The Big Picture: Depleting the Social Security and Medicare Surpluses*. The purpose of the more circumscribed discussion here is merely to show that the tax cuts already go far beyond what the budget resolution stipulates. This highlights that Republicans have no coherent budget strategy this year that might prevent the squandering of the once-in-a-lifetime opportunity that projected budget surpluses represent.

¹ When one includes the associated increase in interest payments on the national debt.

The Cost of Republican Tax Cuts

Billions of Dollars

	<u>2001</u>	<u>Five Years</u>	<u>Ten Years</u>
H.R. 2990, Health Insurance Access	1	13	69
Marriage Penalty Tax Relief Conference Report	15	110	282
H.R. 3832, Minimum Wage Related Tax Cuts	2	45	122
H.R. 7, Education Savings Accounts	0	4	12
H.R. 4163, Taxpayer Bill of Rights 2000	-1	2	7
H.R. 434, Trade and Development Act	0	3	4
H.R. 3916, Telephone Excise Phase-Out	1	20	51
H.R. 8, Estate Tax Repeal	0	28	105
H.R. 4843, IRA Expansion, Pension Changes	1	16	52
H.R. 4865, Reduced Tax on Social Security Benefits	4	45	117
H.R. 4923, Community Renewal and New Markets Act	0	6	16
Duplicative Items	<u>-1</u>	<u>-35</u>	<u>-99</u>
Direct Revenue Loss From Republican Tax Initiatives	22	257	739
Budget Resolution Reconciliation Instruction	12	150	NA
Excess	10	107	NA

The table shows that tax cuts that Congress already has acted upon cost \$22 billion in 2001 and \$257 billion over the next five years. This direct revenue loss is approximately double the size of the tax cuts that the reconciliation instructions in the April budget resolution stipulated. Over ten years, these bills reduce revenues by \$739 billion, approaching the direct revenue loss of last year's failed tax cut. This year's budget resolution only extends five years, so the 10-year costs are not directly relevant to it. However, the 10-year numbers do illustrate how the prolonged phase-in of the tax cuts causes their cost to explode over time. As noted above, the cost explodes even more dramatically after 2010 when the Baby Boom generation starts to retire because some provisions are not fully effective until then.

Appropriations of the Republican Congress

No Controls on Recent Appropriations

In its projection of a non-Social Security surplus of \$1.8 trillion over ten years excluding Medicare and Social Security surpluses, the Congressional Budget Office (CBO) assumed zero real growth in appropriations (discretionary programs) from 2000 onward. However, the history of appropriations under the Republican Congress suggests that appropriations will grow far faster. In fact, the Republican Congress dramatically overspent not only its own budget resolutions but also the President's budget requests in 1999 and 2000, and may well do so for 2001. Based on the recent history of Republican appropriations, Congress will spend much more than CBO estimates for 2001 and the future.

For 1999, Congress failed to pass a final budget resolution for the first time ever. However, using the House-passed budget resolution as a benchmark, Congress overspent its budget by \$52.1 billion, as shown in the table to the right. Congress also exceeded the outlay total in the 2000 budget resolution by \$50.9 billion. Clearly, the budget resolution posed no real constraint on appropriations.

Appropriations Above the Budget Resolution				
		1999	2000	
Budget	BA	531.0	536.3	
Resolution	OL	560.8	570.9	
Appropriations	BA	583.1	585.1	
	OL	575.0	621.8	
Approps. above	BA	52.1	48.8	
Budget Resolution	OL	14.2	50.9	

Gimmicks Give Illusion of Control

For 1999, the Republican Congress ignored both its own budget resolution and the appropriations caps although it went to extraordinary lengths to appear to abide by those caps. To do so, it greatly increased "emergency" funding, which does not count against the caps. In fact, Congress provided \$34.4 billion of emergency funding for 1999, much for on-going needs. It also appropriated \$11.0 billion in "advance funding" for 2000. This funding was considered in the program level for 1999 but did not count against the 1999 caps because it was 2000 funding, and therefore not available until the first day of the following fiscal year.

As the caps tightened further for 2000, Congress began using even more creative gimmicks to pretend it was sticking to the caps and to avoid spending the first non-Social Security surplus since 1960. For 2000, Congress increased emergency funding to \$35.8 billion, much for routine costs. It provided \$23.5 billion in advance appropriations for 2001, an increase of \$12.5 billion from the prior year. It also used timing shifts to delay until 2001 a total of \$7.3 billion in outlays for appropriated programs. Since the Republican Congress delayed the obligations or payments until the end of 2000, these outlays will occur in 2001. The timing shifts pushed costs outside 2000, while the emergency designations allowed technical compliance with the appropriations caps.

Spending Above the Republican Budget Resolution

Original 2001 House 302(b) vs Current Status

(In billions of dollars)

Subcommittee		Original 2001 House 302(b)	Current Status	Current Status vs Original 302(b)
Agriculture	BA	14.4	14.7	0.3
	OT	14.9	15.7	0.8
CJS	BA	34.9	34.9	-0.0
	OT	36.0	35.8	-0.2
Defense	BA	288.4	287.6	-0.8
	OT	279.0	277.8	-1.2
DC	BA	0.4	0.4	0.0
	OT	0.4	0.4	0.0
Energy and Water	BA	21.7	26.7	5.0
	OT	22.0	26.7	4.7
Foreign Operations	BA	13.3	13.4	0.2
	OT	8.5	15.3	6.8
Interior	BA	14.7	15.6	0.9
	OT	15.3	15.5	0.2
Labor HHS	BA	95.9	99.5	3.7
	OT	90.4	95.1	4.6
Leg Branch	BA	2.4	2.5	0.2
	OT	2.4	2.5	0.1
MilCon	BA	8.6	4.9	-3.7
	OT	8.7	2.1	-6.6
Transportation	BA	15.0	15.0	0.0
	OT	48.5	48.3	-0.3
Treasury	BA	14.1	14.4	0.3
	OT	14.6	14.7	0.2
VA-HUD	BA	76.2	78.3	2.1
	OT	84.2	85.8	1.7
Unassigned amount	BA	0.3	0.0	-0.3
	OT	0.3	0.8	0.5
TOTAL	BA	600.3	608.1	7.8
	OT	625.1	636.5	11.4

Note: Numbers may not add due to rounding.

Current Status of 2001 Appropriations

The first column of the “Spending Above the Republican Budget Resolution” table represents the original House Appropriations Committee allocations, which match the level set by the budget resolution for 2001 appropriations. Each appropriations subcommittee allocation is known as a “302(b)” allocation, and the sum of their totals must not exceed the “302(a)” allocation set by the budget resolution for the Appropriations Committee.

The second column represents the current status of the appropriations bills as of July 24, 2000. Only the Military Construction Appropriations bill has been enacted into law. Congress has reached an agreement on Defense Appropriations that is expected to be signed into law soon. The remaining eleven bills are in various stages of the appropriations process. The “current status” column uses the conference report levels for both Military Construction and Defense, but assumes that the remaining bills will be funded at the higher of the House or Senate levels. For the District of Columbia appropriations bill, where neither chamber has adopted a bill, the Senate 302(b) allocation is used instead.

The third column represents the difference between the original 302(b) allocations and the current status of the bills. As the table indicates, Congress is already on track to exceed the budget resolution’s level for appropriations by \$7.8 billion in budget authority and \$11.4 billion in outlays, and still has not entered meaningful negotiations with the Administration.

Current Status is Understated Due to Gimmicks

The “Spending Above the Republican Budget Resolution” table understates the true level of 2001 appropriations by reflecting several budgetary gimmicks. These gimmicks include:

- ! **Timing Shifts** — The budget resolution assumed that several timing shifts enacted last year, including shifts to delay pay for many civil servants and military personnel from 2000 into 2001, would be repealed this year. However, the supplemental appropriations bill not only repealed those timing shifts, it also shifted the timing of payments for Supplemental Security Income and Veterans’ Compensation and Pensions from 2001 to 2000, freeing up an additional \$4.2 billion in both budget authority and outlays for 2001.
- ! **Advance Appropriations** — This funding is appropriated in one fiscal year but is not legally available for obligation and expenditure until a later fiscal year. Advance appropriations are used to circumvent budget authority caps and allocations. The Republican Congress has increasingly resorted to advance appropriations in the last several years to such an extreme that this year, Congress passed a rule prohibiting advance appropriations for 2002 in excess of the 2001 level. Despite this prohibition, Congress has already exceeded the 2001 level of advance appropriations by \$679 million, so 2001 budget authority is understated by this amount.

In addition to these ploys, the Congress has also resorted to a tried and true gimmick, directed scorekeeping. Despite another new rule to prohibit directed scorekeeping, House Republicans

directed CBO to ignore \$1.3 billion in budget authority for mass transit programs. This directed scorekeeping also occurred despite the fact that the budget resolution clearly called for counting mass transit budget authority against the 302(a) allocation for the House Appropriations Committee. The table reflects the full appropriation for Mass Transit, but Republican scorekeeping documents show \$1.3 billion less in budget authority.

Congress has been unable to resist the lure of phony emergencies. The 2000 supplemental enacted into law earlier this month provided \$15.2 billion in budget authority for “emergencies” even though the President requested only \$6.5 billion. Clearly, a significant portion of the \$8.7 billion difference was for items that did not warrant the emergency designation and should have been a normal 2001 appropriation. Providing the funding in 2000 freed up several billion dollars for 2001. Furthermore, the 2001 Defense Appropriations conference report provides \$1.8 billion in 2000 “emergency” budget authority for routine defense operations and maintenance activities that will not be performed until 2001. This is a transparent gimmick to allow the Appropriations Committees to provide an additional \$1.8 billion in budget authority and \$1.3 billion in outlays for 2001 appropriations.

The Republican Congress has resorted to gimmicks totaling at least \$7.9 billion in budget authority and \$5.5 billion in outlays for 2001. This total is even greater depending upon how much of the 2000 “emergency” supplemental appropriations is for items that should have been normal 2001 appropriations.

More Funding Yet to Come

The Republican Congress is likely to increase appropriations even more during the remainder of this Congress for several reasons. First, the Senate has already indicated it will repeal offsets contained in the Labor-HHS-Education bill that total \$3.5 billion in budget authority and \$1.2 billion in outlays. Second, other bills, such as Foreign Operations and VA-HUD,² have been intentionally underfunded to provide extra funding for other bills, but are likely to receive significant increases in funding before they are signed into law. Third, several national initiatives — such as providing more and better teachers for our children’s classrooms, assisting school construction, bolstering Head Start, protecting America’s open spaces, and increasing research grants by the National Institutes of Health — are either omitted from or underfunded in the current appropriations bills. Clearly, these popular initiatives will be included and adequately funded in the final versions of the bills. Taking these factors into account, a conservative estimate is that appropriations outlays will reach at least \$642 billion when all is said and done, \$6 billion more than the current status. (This is the level assumed in *The Big Picture: Depleting the Social Security and Medicare Surpluses*.) This level will be \$17 billion more than the level set by the budget resolution.

²The Senate version of the VA-HUD bill exemplifies just how unrealistic is the budget resolution’s level for appropriations. Currently, the Senate 302(b) allocation for this bill is \$17 billion in budget authority, even though last year’s appropriation was \$72 billion. **The Senate has deliberately shortchanged the 302(b) allocation for this bill by at least \$55 billion in order to provide a level of funding for the other 12 bills sufficient for Senate passage.**

The Republican Congress Fails on All Counts

In summary, this year's budget process is essentially a replay of the last several years. The budget resolution sets an unrealistically low level for appropriations, a level by which the Republican Congress itself cannot abide. The Congress then resorts to gimmicks to try to mask the fact that it cannot live under its self-imposed restraints. In the end-of-year negotiations that invariably ensue, the Congress not only adds billions to appropriations, but in the past few years has provided a higher level than the President originally requested. The bottom line is that the Republican Congress has allowed the appropriations process to break down.

Mandatory Spending

The House has already taken actions that, if enacted, will increase mandatory spending over the next five years (2001-2005) by \$61.7 billion, which is \$8.4 billion more than called for in the fiscal year 2001 budget resolution. In addition, as described below, it is quite likely that Congress will increase mandatory spending by at least another \$54 billion over the next five years. Actions already taken by the House this session will increase mandatory spending by \$210.7 billion over ten years (2001-2010). Likely further legislative actions could add another \$107.3 billion to that sum, for a total increase of \$318 billion over ten years.

Mandatory Spending Actions By the House (outlays in billions of dollars)

	2001	2001-2005	2001-2010
Mandatory Spending Changes Assumed in Budget Resolution	5.4	53.4	n/a
House Actions to Date (CBO estimates)			
Medicare Rx 2000 Act	0.4	40.0	159.1
Agricultural Risk Protection Act	2.2	8.8	20.3
Conservation and Reinvestment Act (CARA)	0	7.8	19.8
Marriage Tax Penalty Relief Act	*	4.3	9.7
Quality Health-Care Coalition Act	0.1	1.7	2.5
National Defense Authorization Act for FY 2001	*	0.5	1.1
Veterans & Dependents Millennium Education Act	0.1	-0.1	0.7
Other Mandatory Changes	-0.2	-1.2	-2.5
Total Mandatory Spending Changes To Date	2.6	61.8	210.7
amount over(+)/under(-) budget resolution	-2.7	8.4	n/a
Likely Further Actions:			
Future agricultural assistance	6.5	32.5	65.0
Medicare provider restorations	3.7	21.0	40.0
Bring military retiree health care enhancements to Senate levels	0.0	0.5	2.3
Subtotal, likely further action	10.2	54.0	107.3
Total, Current and Likely Mandatory Changes	12.8	115.8	318.0
amount over(+)/under(-) budget resolution	10.1	62.4	n/a

The budget resolution accounts for the two biggest increases in mandatory spending passed by the House this session, the Republican Medicare prescription drug plan and the Agricultural Risk Protection Act. However, the budget resolution does not include several other significant spending increases approved by the House. For example, the budget resolution does not accommodate passage of the Conservation and Reinvestment Act of 2000 (H.R. 701). This bill, which passed the House with 315 votes, dramatically increases spending for land conservation, acquisition, and management. CBO estimates that mandatory outlays flowing from this bill will total \$7.8 billion over five years (2001-2005) and \$19.8 billion over ten years (2001-2010).

The budget resolution also does not accommodate the Quality Health-Care Coalition Act of 2000 (H.R. 1304). This legislation exempts health care professionals from antitrust laws when they negotiate with health plans over fees and other contract terms. CBO estimates that the greater flexibility provided to health professionals under this bill will increase the costs of several federal health programs, leading to increased mandatory spending of \$1.7 billion over five years (2001-2005) and \$2.5 billion over ten years (2001-2010).

Finally, the budget resolution does not adequately provide for the spending portion of the Marriage Tax Penalty Relief Act of 2000. Most of the fiscal impact of the bill is through revenue losses, but a portion of its cost shows up as increased mandatory spending. The bill increases by \$2,000 the beginning and ending income levels for the earned income credit (EIC) phase-out for married couples filing jointly. The budget resolution provides \$3.0 billion over five years for increased mandatory spending for programs under the jurisdiction of the Ways & Means Committee. However, the mandatory spending in the marriage tax relief measure passed by the House exceeds that sum by \$1.3 billion.

Likely Additional Spending Increases

- ***Additional Farm Assistance*** — CBO's current 10-year budget projections for mandatory agricultural spending do not assume any changes in current law. Under current law, the 1996 Freedom to Farm Act, farm price support payments decline significantly over time. However, in the last few years, Congress has consistently provided additional payments to farmers. These additional payments totaled about \$6 billion in 1999 and \$14 billion in 2000. With continuing low farm prices and widespread Congressional discontent with the Freedom to Farm Act, it is only reasonable to assume that Congress will continue to provide farm assistance above the levels in the budget baseline. Based on historical funding levels, it is fair to assume that Congress will provide about \$6.5 billion per year above the levels specified in the Freedom to Farm Act.
- ***BBA Medicare Provider Restorations*** — Congress will almost certainly increase Medicare provider payments in order to eliminate some of the savings required by the Balanced Budget Act of 1997 (BBA). Relative to current law, these restorations will increase Medicare spending relative by at least \$21 billion over five years (2001-2005) and by \$40 billion over ten years (2001-2010).
- ***Military Retiree Health Care Enhancements*** — Both the House and Senate versions of

the National Defense Authorization Act for 2001 enhance health care benefits for military retirees. However, the provisions in the Senate bill, which are much more generous than those of the House bill, are the ones likely to be agreed to in conference. The Senate version of the bill extends the Department of Defense's TRICARE health care benefits to Medicare-eligible military retirees and their dependents. This provision costs \$0.9 billion over five years (2001-2005) and \$2.7 billion over ten years (2001-2010), but the Senate masks the full cost by authorizing the entitlement expansion for only two years (2002 and 2003). Of course, once the entitlement is expanded, future Congresses are likely to honor that commitment and extend the benefits for future years. Since the budget resolution only provides \$0.4 billion over five years for this benefit increase, the passage of the conference agreement will increase mandatory spending by \$0.5 billion over five years (2001-2005) and \$2.3 billion over ten years (2001-2010).

The Big Picture: Depleting the Social Security and Medicare Surpluses

CBO has placed what looks like a huge 10-year surplus on the table. But the real surplus is smaller than meets the eye. The projected surplus assumes that future Congresses will enact spending cuts far more severe than ever seen in the past, allow popular tax breaks to expire, and do nothing to keep the alternative minimum tax from hitting middle-income families. Furthermore, Congress already has passed, or will pass in the near future, bills large enough to dissipate all the available surplus.

The rules of the current budget process were designed during the era of deficits and mounting public debt. They were intended to facilitate fiscal discipline, and they have made a significant contribution to the current bright budget outlook. As budget surpluses have emerged in the last couple of years, though, the majority has misused the budget process by attempting to have it both ways on fiscal policy.

Each spring, Republicans have passed partisan budget resolutions that pretend to adhere to tough fiscal standards. These resolutions routinely advance an ambitious agenda of tax cuts that ostensibly don't jeopardize our fiscal health because they supposedly will be offset by huge future spending cuts. The purported cuts are always so large that they would never have a chance to pass and would do great harm if they did. By the end of the year, though, the absence of a credible budget blueprint to guide disparate decisions about taxes and spending has led to repeated budget "train wrecks."

Thus far, these "train wrecks" have not significantly reduced projected surpluses because the Congress has sustained Presidential vetoes of Republican tax bills that would have consumed a large portion of future budgetary resources. Meanwhile, Republicans have voted for substantial increases in appropriated spending for education, law enforcement, military modernization, farm aid, and technology that are quite inconsistent with their austere rhetoric.

Democrats and the Clinton Administration support targeted tax cuts within a budget that also extends Social Security and Medicare solvency and funds a Medicare prescription drug benefit. But if indiscriminate Republican tax cuts are allowed to pass, they would, in combination with the kind of spending increases Republicans already have voted for, squander the chance of a lifetime offered by projected budget surpluses.

Committing now to the exploding costs of the Republican tax agenda would handicap future Congresses, Republican or Democratic, in making sensible choices about the nation's unmet needs and priorities. The Republican tax cuts' long-term costs are simply too large to leave room for enacting an adequate prescription drug benefit, extending Social Security and Medicare solvency, or accelerating repayment of the national debt without making spending cuts that Republicans themselves are unwilling to vote for.

The table below projects what will happen over the next ten years if budgets reflect what Republicans have done, rather than what they have said. The 10-year costs of their tax initiatives

are based on estimates by the Joint Tax Committee. Estimated spending over the next ten years is based on bills about to be passed by the House and by projecting into the future spending increases that Republicans repeatedly have voted for during their tenure in the majority. Together, the tax and spending consequences of Republican action demonstrate that they will spend some of the Social Security and Medicare surpluses, even assuming inadequate funding for a prescription drug benefit. Even so, this leaves no money to extend Social Security and Medicare solvency or to pay down the public debt more quickly.

Republican Agenda Produces Deficits

Billions of Dollars, CBO Estimates

	<u>2001-2010</u>
CBO July Projection of Non-Social Security Surplus	2,173
Reserve Medicare HI Surplus	361
Available Surplus	1,812
 Tax Cuts:	
Tax Cuts Thus Far	739
Future Tax Cuts (Fix AMT, Extend Popular Expiring Credits)	183
 Realistic Spending Projections:	
Projection of Appropriations Based on Growth from 1995 to 2001	284
Mandatory Spending Increases to Date, Excluding Prescription Drugs	54
Republican Prescription Drug Benefit	159
Maintain Farm Assistance at Recent Levels	65
Medicare Provider Restorations	40
 Additional Interest Payments on Publicly Held Debt	376
Subtotal	<u>1,900</u>
Remaining Surplus Available for an Adequate Medicare Prescription Drug Benefit, Additional Debt Reduction, and Extending Social Security and Medicare Solvency	-88

Both parties have accepted the idea that the \$361 billion Medicare HI surplus should be reserved, just as the Social Security surplus is being saved, and this reduces what is available for other

purposes. While saving the Social Security and Medicare surpluses is a positive step because more debt is retired, this does not in itself do anything to extend the solvency of either program.

One also must deduct from the 10-year surplus the \$739 billion revenue loss due to the tax bills that Republicans have moved in this Congress. (For a more complete discussion, see *Tax Cuts*.) However, this year's bills are unlikely to mark the end of tax cutting.

There is widespread agreement that the individual alternative minimum tax (AMT) will have to be fixed because its provisions are not indexed to inflation. If the current law is left unchanged, millions of middle-class families will become subject to this tax over the next ten years, eventually hitting 45 percent of families with two children. Furthermore, a host of tax credits (e.g. the R&E credit, the welfare-to-work credit, the work opportunity credit, and others) are scheduled to expire. These popular credits have always been renewed, and Congress undoubtedly will do so again. Together these additional tax reductions reduce the surplus by another \$183 billion.

It should be noted that the table does not include any additional tax cuts beyond fixing the AMT and renewing the expiring credits. The omnibus tax bill that virtually all Republicans voted for last year included a variety of measures that they have not advanced this year. In fact, the Office of Management and Budget has calculated that the total cost including debt service of this year's tax cuts combined with those parts of last year's bill that have not been revived is \$1.8 trillion. By itself, this would totally exhaust the surplus outside of Social Security and Medicare. Republicans have not attempted to move those additional items this year, but they frequently promise that this year's tax cuts are a "down payment" on future tax cuts.

Despite Republicans' reputation as fiscal hawks who zealously hold the line on appropriations, they have increased appropriations much faster than the rate of inflation, the rate reflected in CBO's baseline. This year's appropriations bills are likely to eventually total at least \$642 billion (as detailed in *Appropriations of the Republican Congress*). If that is the case, nondefense appropriations will have risen at least at a 3.9 percent annual rate since 1995.

The figures in the table assume that nondefense appropriations continue to increase at 3.9 percent in the future, even though increases in the last three years have been much larger. In addition, the figures above make the conservative assumption that defense spending rises at the rate projected in the CBO baseline, namely the rate of inflation. Of course, many have argued that the changing security environment, the need for improved military readiness, and missile defense will cause future defense spending to rise faster than CBO assumes. Taken together, these conservative projections of past Republican spending trends imply that appropriations will consume another \$284 billion of the 10-year surplus.

The table also includes the additional mandatory spending that results from various bills that already have passed either the House or Senate. Together, the Agricultural Risk Protection Act, the Conservation Reinvestment Act, the Quality Health-Care Act, the National Defense Authorization Act, and the Veterans and Dependents Millennium Education Act will add \$54 billion to mandatory spending over the next ten years. (For further discussion, see *Mandatory Spending*.)

Republicans have proposed a prescription drug benefit for seniors that relies on private insurers to provide coverage, buttressed by a government subsidy to reduce insurers' risk and cost. The 10-year cost of the proposal is \$159 billion. There are serious questions about whether such an approach will work, given that the insurance industry has publicly stated that it will not. The proposal also fails to guarantee benefits for all seniors, and the President has promised to veto it because he believes it inadequate and infeasible. Nonetheless, the table includes the \$159 billion cost of this proposal even though any prescription drug benefit that Congress is likely to enact will presumably cost more.

In addition, Congress has supplemented existing farm aid programs with various "one-time" infusions in each of the last three years because support levels have been deemed too low. These *ad hoc* infusions have averaged a little over \$7 billion per year. The table makes the more conservative projection that additional farm aid will average \$6.5 billion per year, consuming another \$65 billion of the surplus.

Furthermore, Republicans have promised to provide substantial relief this year for Medicare providers. President Clinton's budget contained a proposal that would cost \$40 billion over ten years. As this is being written, it has been reported that the Ways and Means Committee is about to consider a Republican package that is at least the same size, and the table therefore assumes the \$40 billion figure.

Finally, to whatever extent debt is reduced more slowly than assumed in the baseline, spending for interest on the debt will be higher. The added debt service associated with the cost of the tax cuts, all the additional mandatory spending, farm aid, and appropriations reduce the surplus by another \$376 billion.

The bottom line shows that, even using this conservative projection, Republican budget policies consume \$88 billion over ten years of the Social Security and Medicare surpluses that both parties have promised to protect. Republicans are breaking their promise not to touch either the Social Security and Medicare surpluses even assuming that the Congress enacts Republicans' inadequate and unworkable prescription drug benefit. Worse still, these budget trends imply that no part of the surplus outside of Social Security or Medicare will be available to extend the solvency of those programs or for accelerating repayment of the public debt.